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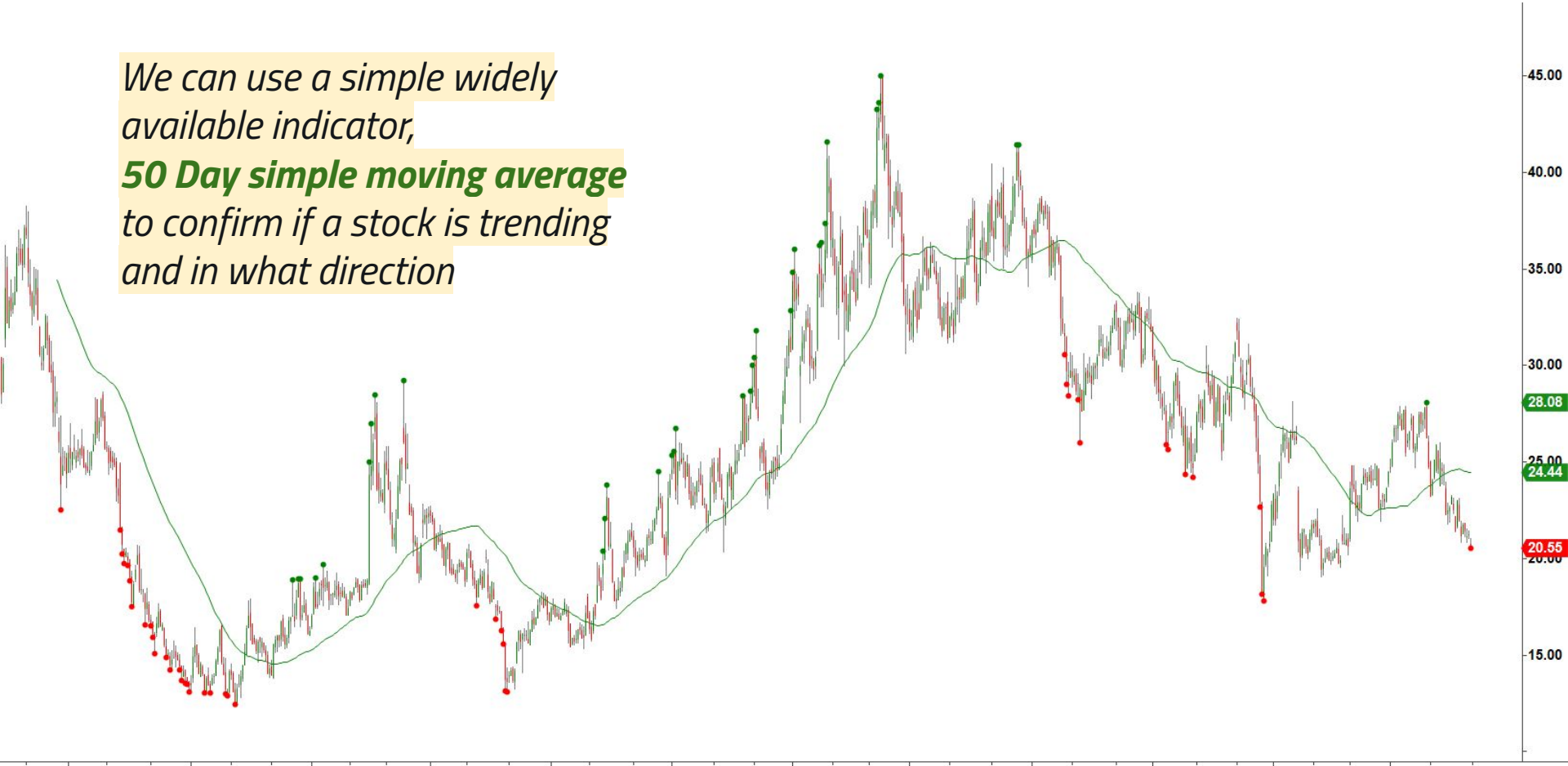
Indication of a trending stock: SMA 50

We can use a simple widely available indicator,
50 Day simple moving average
to confirm if a stock is trending and in what direction

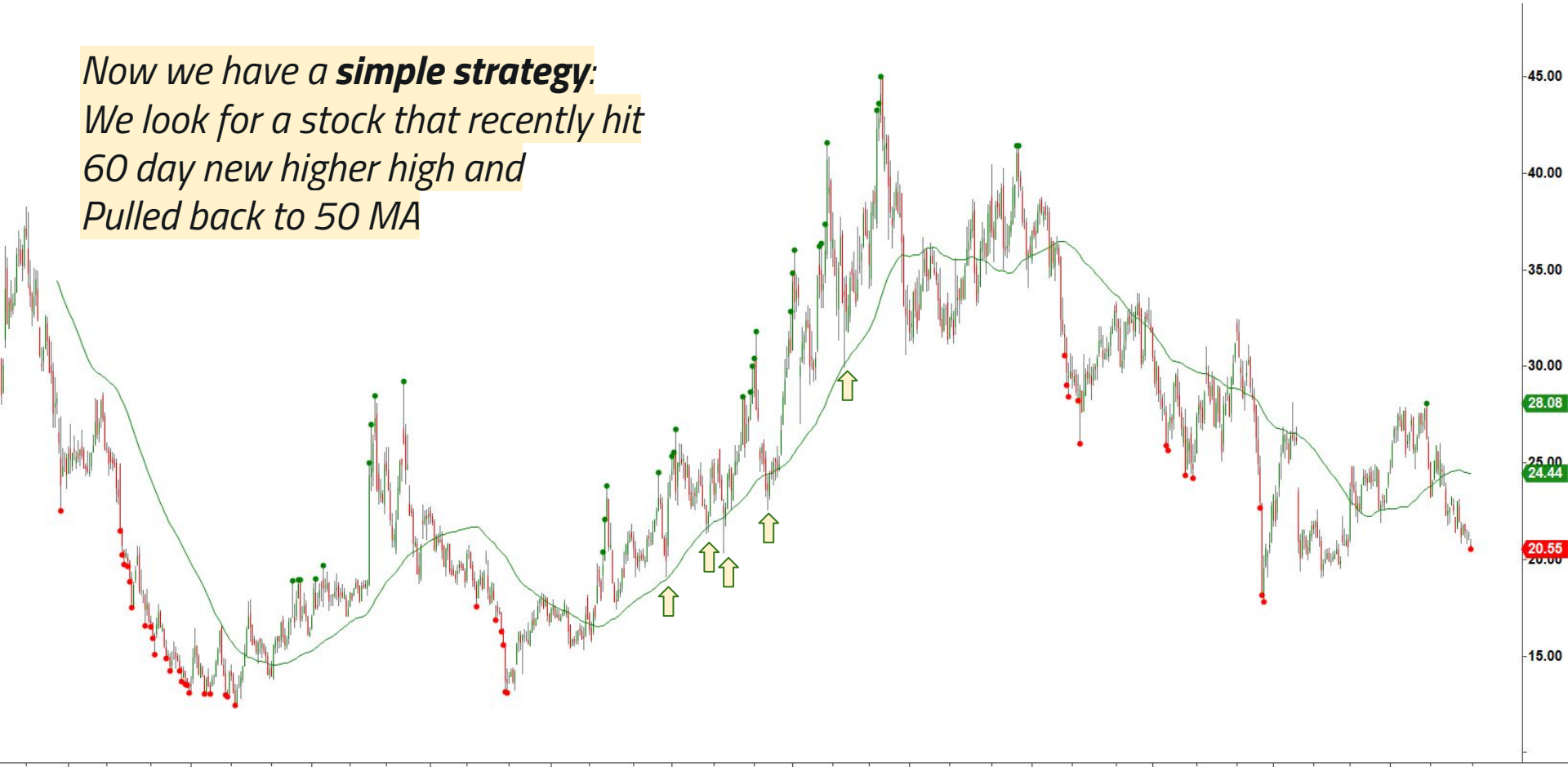


Indication of a trending stock: SMA 50

When stock is trending up, very often temporary pullbacks find support at
50 Day simple moving average (SMA)

Indication of a trending stock: SMA 50

*Now we have a **simple strategy**:*
We look for a stock that recently hit
60 day new higher high and
Pulled back to 50 MA



Indication of a trending stock: SMA 50

If we color 50 MA based on it slope you will see that it becomes even more powerful tool!

***When price leads** 50 MA **on the way up** it turns up and starts catching up with the price keeping upward slope*

Indication of a trending stock: SMA 50

When bulls push price of a stock too high and too fast they get exhausted. When price reaches a new high more sellers are willing to sell and more short sellers are attracted. They push price down until it reaches a level where buyers believe the price dropped to low not to buy. This is why price comes back down to the upward sloped 50 MA

Indication of a trending stock: SMA 50

When bulls push price too high and too fast they get exhausted. New higher price attracts bears and they push price down until bulls start buying again.

Test of the 50 MA attracts new buyers who missed the previous rally

Indication of a trending stock: SMA 50

When price leads *50 MA* ***on the way down*** *it turns down and starts catching up with the price keeping downward slope*

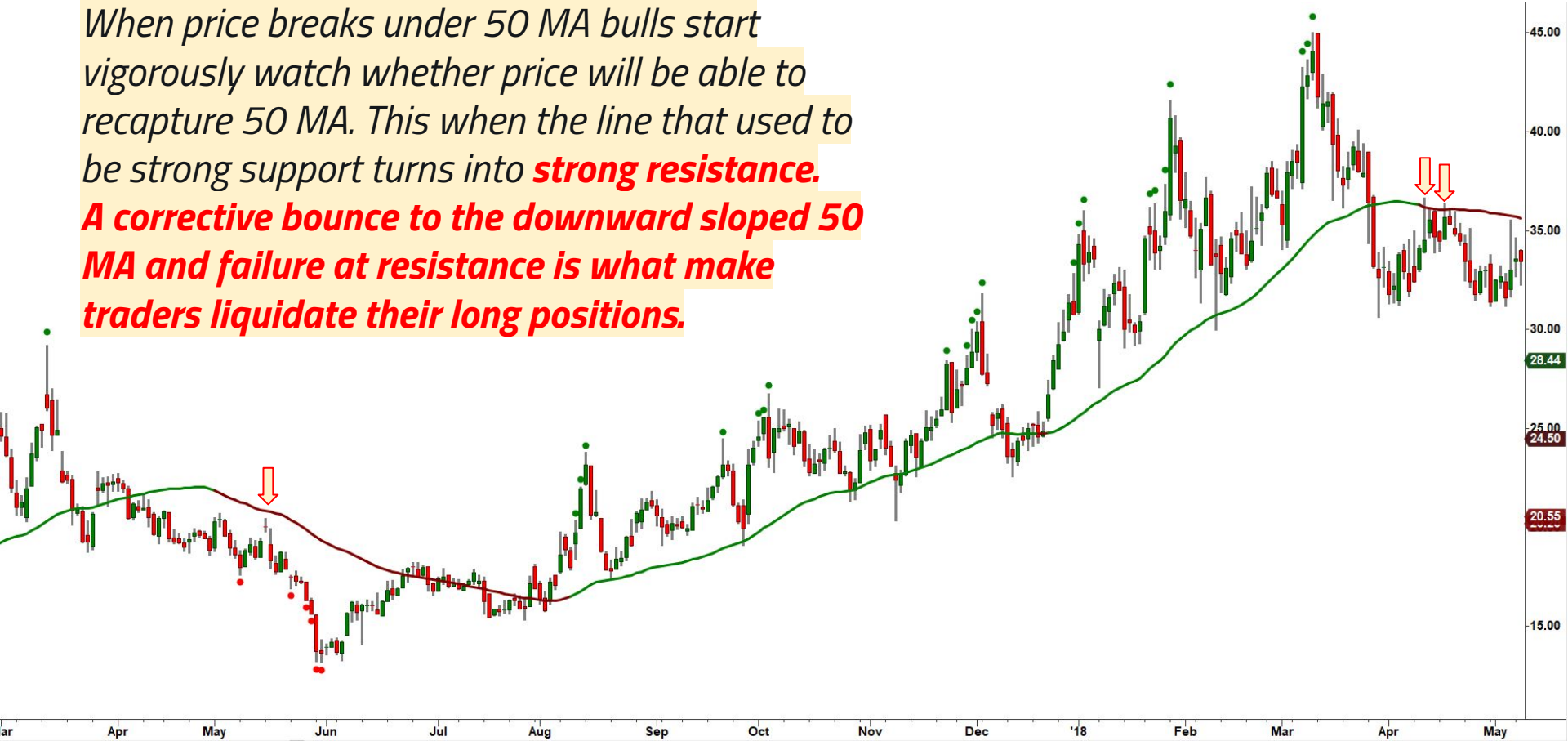
Indication of a trending stock: SMA 50

When price leads *50 MA* ***on the way down*** *it turns down and starts catching up with the price keeping downward slope*
When price breaks under 50 MA bulls start vigorously watch whether price will be able to recapture 50 MA. This when the line that used to be strong support turns into ***strong resistance***

Indication of a trending stock: SMA 50

When price breaks under 50 MA bulls start vigorously watch whether price will be able to recapture 50 MA. This when the line that used to be strong support turns into ***strong resistance.***

A corrective bounce to the downward sloped 50 MA and failure at resistance is what make traders liquidate their long positions.



Indication of a trending stock: SMA 50

Now we have a simple strategy:
*We look for a stock that recently hit 60 day new higher high and then pulled back to **upward sloped** 50 MA*

Takeaways

- We can use 50 day simple moving average to detect direction of the trend and anticipate where bulls can stop temporary corrective pullbacks